

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
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OES-07 SP-02 SS-15 STR-05 TRSE-00 ACDA-12 PA-01
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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 5038

INFO AMCONSUL MONTREAL

ALL OTHER CONGENS IN CANADA POUCH

C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 09077

E.O. 11652: N/A

TAGS: ENRG, CA

SUBJ: GLOBE AND MAIL COLUMNIST JEFF STEVENS COMMENTS ON
PIPELINE AGREEMENT

1. SUMMARY: GLOBE AND MAIL COLUMNIST GEOFFREY STEVENS, IN DELAYED BUT CONSIDERED REACTION, HAS PRODUCED RATHER DOWN-BEAT COMMENTARY ON GAS PIPELINE AGREEMENT. ALTHOUGH HE ACKNOWLEDGES THAT CANADA WILL DERIVE SOME BENEFITS FROM THE AGREEMENT, STEVENS MAINTAINS THE U.S. WILL HAVE BULK OF THEM. HIS ANALYSIS IGNORES POSSIBILITY THAT NEGOTIATIONS RESULTED IN INCREASED ADVANTAGE FOR BOTH PARTIES AND THUS REFLECTS STANDARD CANADIAN MYTHOLOGY ON DEALINGS WITH THE U.S. -- THAT CANADA ALWAYS COMES OUT ON THE SHORT END. END SUMMARY.

2. COLUMNIST GEOFFREY STEVENS WROTE TWO-PART COMMENTARY ON GAS PIPELINE AGREEMENT FOR OCTOBER 12 AND 13 GLOBE AND MAIL. IN FIRST ARTICLE, "WERE WE GULLED?", STEVENS SAID SECRETARY SCHLESINGER MAKES A BETTER CASE FOR AGREEMENT'S
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ADVANTAGES TO U.S. THAN HAS YET BEEN MADE FOR ITS
ADVANTAGES TO CANADA. STEVENS NOTED FOLLOWING BENEFITS FOR U.S.: DOLS 6 BILLION SAVED IN TRANSPORTATION COSTS OVER 20 YEARS; PROTECTION NOT OTHERWISE AVAILABLE FOR TRANSPORTING GAS ACROSS CANADA AGAINST CONSTRUCTION DELAYS, COST OVERRUNS AND INCREASED TAXES AND TARIFFS; AND ADDITIONAL GAS SUPPLIES FROM CANADA'S CURRENT SHORT-

TERM SURPLUS AND MACKENZIE DELTA.

3. BENEFITS SOUGHT BY CANADA AT BEGINNING OF NEGOTIATIONS, DOLS 2 MILLION PAYMENT FOR INDIRECT SOCIO-ECONOMIC COSTS AND DAWSON ROUTE, WERE DROPPED IN EXCHANGE FOR U.S. AGREEMENT TO PAY UP TO 100 PERCENT OF DAWSON-WHITEHORSE LINK, DOLS 200 MILLION PRE-PAYMENT OF TAXES AND CEILING ON PROPERTY TAX PAYMENTS. STEVENS STRESSED THAT ALTHOUGH OTTAWA "HAPPILY ANTICIPATES" DOLS 1 BILLION IN TAX REVENUES OVER 25 YEARS, SECRETARY SCHLESINGER LOOKS AT IT THIS WAY: "THE CEILING ON YUKON TAXES REPRESENTS ONLY A MODEST INCREASE OVER THE LEVEL OF TAXES INCLUDED IN THE ORIGINAL COST OF SERVICE ESTIMATES ... THIS AGREEMENT... REMOVES A POTENTIALLY TROUBLESOME OPEN-ENDED TAX AND A LARGE ADDITIONAL IMPACT PAYMENT." STEVENS CONCLUDED OCTOBER 12 ARTICLE SAYING, "MR. SCHLESINGER MADE IT SOUND AS THOUGH SHREWD YANKEE TRADERS HAD SLID ACROSS THE BORDER AND GULLED THE POOR CANADIANS. DID THEY? WE WILL RETURN TO THE SUBJECT TOMORROW."

4. SECOND ARTICLE, "WORKING WITH JELLY" SAYS THAT WHILE ADVANTAGES TO U.S. IN AGREEMENT ARE UNMISTAKABLE, ADVANTAGES TO CANADA ARE MORE DIFFICULT TO DEFINE. MOST OBVIOUS ADVANTAGE FOR CANADA IS THAT OF DOLS 3.8 TO DOLS 4.4 BILLION TO BE SPENT ON CANADIAN SEGMENT OF LINE, DOLS 2.5 BILLION WILL BE SPENT IN CANADA CREATING CONFIDENTIAL

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68,000 JOBS. OTHER BENEFITS TO CANADA, STEVENS SAYS, ARE HARDER TO DEFINE AND DEPEND ON ASSUMPTIONS ONE MAKES AND WHOSE FIGURES ONE CHOOSES TO BELIEVE. FOR EXAMPLE, IF ONE ASSUMES MACKENZIE DELTA GAS DISCOVERIES WILL JUSTIFY CONSTRUCTION OF A PIPELINE, DAWSON-WHITEHORSE LINK WILL BE CONSTRUCTED WITHIN THREE YEARS OF OPENING MAIN LINE (I.E., BY END OF 1985) AND CANADA KEEPS COST OF MAIN LINE WITHIN 35 PERCENT OF ORIGINAL ESTIMATE, THEN CANADA WOULD REAP SUBSTANTIAL BENEFIT --- U.S. WOULD PAY FULL COST OF LINK. IF LAST ASSUMPTION IS WRONG, BENEFIT WOULD BE LESS. IF EITHER OF FIRST TWO ASSUMPTIONS ARE CORRECT, THERE IS NO BENEFIT.

5. LOOKING AT YUKON PROPERTY TAXATION, STEVENS SAYS THAT OTTAWA CALCULATES NET TAX BENEFIT AT DOLS 1 BILLION OVER 25 YEARS -- COMPARED WITH DOLS 142 MILLION ORIGINALLY ESTIMATED BY FOOTHILLS. THIS, HE SAYS, CONTRASTS SHARPLY WITH STATEMENT BY SECRETARY SCHLESINGER THAT TAX REGIME SET DOWN IN AGREEMENT REPRESENTS "ONLY A MODEST INCREASE" OVER THE ORIGINAL TAX ESTIMATE. STEVENS NOTES THAT SUPPORT FOR U.S. INTERPRETATION COMES FROM CANADIAN WILDLIFE FEDERATION. TAKING OTTAWA FIGURES

(INCLUDING ASSUMPTION OF 5 PERCENT ANNUAL INFLATION
AND CONVERTING THEM INTO CONSTANT 1977 DOLLARS) WILDLIFE
FEDERATION FINDS THAT TAX BENEFIT TO CANADA WORKS OUT
TO ONLY DOLS 260.64 MILLION OVER 25 YEARS, A FAR CRY,
STEVENS SAYS, FROM DOLS 1 BILLION PLUS. HE ASKS:
"WHO IS RIGHT? WHO KNOWS? AND QUOTES UNAMED FEDERAL
OFFICIAL WHO SAID: 'THESE FIGURES ARE ALL LIKE WORKING
WITH JELLY.'"

6. CLOSING, STEVENS SAID: "HOWEVER, BOTH PRIVY COUNCIL
PRESIDENT ALLAN MACEACHEN AND JAMES SCHLESINGER, THE
U.S. ENERGY SECRETARY, PROFESS THEMSELVES WELL PLEASED
WITH THE AGREEMENT THEY NEGOTIATED. MR. MACEACHEN:
'THIS GIVES US A GREAT PROJECT IN COMMON AND PUTS OUR
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RELATIONSHIP IN A NEW LIGHT.' MR. SCHLESINGER: 'THIS
JOINT U.S.-CANADIAN UNDERTAKING COULD RESULT IN SIGNIFI-
CANT COOPERATION WITH CANADA ON A VARIETY OF OTHER
ENERGY ISSUES, SUCH AS OIL EXCHANGES, PIPELINES AND

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C O N F I D E N T I A L SECTION 02 OF 02 OTTAWA 09077

STRATEGIC RESERVES.' TO BE SERVED WITH MORE JELLY,

NO DOUBT."

7. COMMENT: STEVENS OBVIOUSLY TOOK CARE TO ANALYZE AGREEMENT AND SUPPORTING RECORD BEFORE WRITING ARTICLES. HE IS A RESPECTED, THOUGHTFUL JOURNALIST NOT GIVEN TO REFLEXIVE NATIONALISM AND MUST BE TAKEN SERIOUSLY. THESE ARTICLES HOWEVER, REVEAL AN ATTITUDE THAT UNDERLIES MUCH CANADIAN NATIONALIST SENTIMENT. THEY REPRESENT A REFINEMENT OF THE WIDELY HELD BUT MISTAKEN VIEW THAT CANADA NEVER GETS AN EVEN BREAK IN NEGOTIATIONS WITH U.S. STEVENS DOES NOT SAY CANADA LOST GROUND BUT STATES CLEARLY THAT THE U.S. IS GETTING MORE OUT OF THE AGREEMENT THAN CANADA. WHILE STEVENS' COMMENTS ARE MORE INFORMED THAN THE USUAL CANADIAN MYTHOLOGY ABOUT DEALINGS WITH THE U.S., HE NEVERTHELESS REFUSES TO ACCEPT THE POSSIBILITY THAT CANADIAN AND U.S. PIPELINE NEGOTIATORS TRANSFORMED THE BARGAINING PROCESS INTO SOMETHING SIGNIFICANTLY BETTER THAN A ZERO-SUM GAME. ENDERS

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